











# ONTARIO ENERGY BOARD

## ANNUAL REPORT

Fiscal Year Ended  
March 31, 1987



CA20N  
EB  
A56



***Cover Photograph:***

*Pickering Park with Pickering Nuclear  
Generating Station in background—an  
illustration of nature undisturbed by the  
need to produce energy.*

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*Union Gas Limited*

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*Ontario Hydro*

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The Honourable Lincoln M. Alexander  
Lieutenant Governor of the  
Province of Ontario

I hereby submit the annual report of the Ontario Energy Board. It reviews the events and activities of the fiscal year 1986-87.

Respectfully submitted,

A handwritten signature in cursive script, reading 'Vincent G. Kerrio'.

Vincent G. Kerrio  
Minister of Energy



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## MESSAGE FROM THE CHAIRMAN

The past fiscal year has been one of the most dynamic in the history of the natural gas industry in Ontario. Decisions issued by the Ontario Energy Board in this year may well set the pattern for the industry for the next decade, and perhaps for decades to come.

There have been many positive developments at the Board in 1986-87. I am pleased to report that in several areas we have strengthened our resources and expanded our lines of communication to include a range of organizations and information networks.

A regulatory agency in the energy field today deals with extremely complex and technical matters. Thus, individuals of the highest calibre, with many years of experience related to the energy industry, are needed. Our Board is fortunate in drawing such individuals from universities, industry and government.

Because we demand the best, the recruitment process is rigorous. In these efforts and others, we are assisted by the Ontario government. While I could never mention all the people who directly and indirectly facilitate the smooth operation of the Board, I would be remiss if I did not acknowledge the support and co-operation we have received from the Minister and Deputy Minister of Energy during the past fiscal year.

This year there has been a particularly strong emphasis on strengthening Board resources and research staff, and in ensuring that there is continuing exposure to the latest developments in the industry.

Extensive information-sharing programs have been developed, both formal and informal. A visiting speaker series provides seminars on a variety of subjects. We have also established information networks with officials in other provinces, the National Energy Board, the Ministry of Energy, Mines and Resources for Canada and key U.S. states. In this way the Board is informed of developments as they occur and we are able to provide information on our own activities.

We have developed a special relationship with Ontario universities and are now working on establishing some joint funding of theses by selected PhD students across the province. This will ensure that important background research essential to the regulation of public utilities will be performed. We engage students for limited periods of time so that they acquire on-the-job experience. As I perceive it, this Board has a duty to contribute to the education and training of professionals in this field, since we may later benefit from their expertise and understanding of our role.

In this respect, a program is also being developed to provide for exchanges of personnel between the Board and a number of professions such as law, engineering and accounting.

The Ontario Energy Board was one of the founding members of the Council of Canadian Administrative Tribunals (CCAT). I am pleased to report that this year's second annual conference was a success, with increased attendance from boards, commissions and tribunals located throughout Canada at both the federal and provincial levels. These conferences provide a forum for an exchange of ideas and experiences of those involved on a day-to-day basis with administrative law at the decision-making level, and create an opportunity for members to meet on an informal basis in an educational setting.

Our commitment to exchanging information has necessitated some travelling during the year, particularly to the producing provinces. We felt it was essential to communicate the basis of our decisions to those affected, and to learn first hand about the experience of the producing provinces under the Agreement on Natural Gas Markets and Prices. Now, more than ever in this period of change, it is important to keep the lines of communication open.

For this reason, a newsletter is planned for the next fiscal year. To be issued on a regular basis, it will explain how we operate, discuss major events and developments in the industry, and review recent decisions and pending hearings.

The year of transition following the Agreement on Natural Gas Markets and Prices ended in November, 1986. This transition year and the subsequent months have seen a gradual movement to more market-oriented pricing and marketing. While generally held to be a desirable goal, this has led to considerable uncertainty for all segments of the industry, from producer to consumer.

Distributors have retained their monopoly over the transportation of natural gas; however, they no longer have a monopoly over the sale to end-users.

During the year the Board moved quickly to implement the new policies stemming from the Agreement, and through its deliberations and decisions, to ensure those policies were put in place within the context of current legislation. It is perhaps not surprising that some Board decisions were controversial ones.

In considering the role of the Ontario Energy Board, it is important to be aware of the origins of utility regulation. Early in this century, utility companies realized that the costly installations and facilities required for gas delivery made competition prohibitively expensive. Smaller companies merged into larger entities to assume control over a designated area through franchise agreements reached with local municipalities. In effect, natural monopolies came into being. As the industry grew and expanded, it became obvious that these monopolies needed to be scrutinized by an impartial body to ensure that the public interest was observed and protected.

This is still the function of the Ontario Energy Board: a Board hearing is a fair, effective, and impartial forum at which members of the public can air their views and concerns.

When the environment in which the industry operates changes dramatically, as it has during this past year, the regulatory process must be able to meet the new challenges. Board decisions will sometimes be controversial or contentious. Our responsibility is to protect the public interest within the context of current national and provincial policies and legislation. It must be recognized that this may occasionally cause some dislocation in the industry, at least in the short term. Equally, the regulatory process must change to accommodate the market and other forces that affect it.

Regulation need not, however, be adversarial. The process must rest in part on trust. The objective of both regulators and regulated should be the efficient functioning of the system. Mutual respect is particularly important when the changing environment places excessive strain on all parties in the system.

My concept of the policy changes that have affected gas marketing and pricing in the past year is that they have changed the nature and direction of regulation, but have not removed the need for it.

I believe that in the next few years, industry and relevant government bodies will resolve the question of separating gas marketing from gas transportation. The role of brokers in marketing gas will be dealt with. Questions to be considered include whether new legislation should allow them total access to the Ontario market, or whether and how their involvement should be restricted.

When we examine this, we will examine whether residential customers as well as industrial and commercial customers should be served by brokers, and if so, the terms and conditions that should apply. Decisions will also need to be made as to whether some segments of the market need special protection; and if so, whether this is an appropriate responsibility for a regulatory agency.

Obviously, these questions cannot be answered solely by a consuming province such as Ontario. Energy regulation and the direction it will take have nation-wide implications, with consuming provinces benefitting from lower costs and producing provinces expressing some reservations about the speed and the extent of changes in regulation resulting from the 1985 Agreement on Natural Gas Markets and Prices. In any case, the Board will endeavour to respond to changes as they occur—and if there is one element of certainty in this industry, it is that there are more changes ahead.

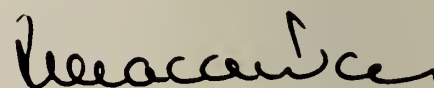
During the year in review the Board issued several major decisions that will have long term implications. Selected decisions are discussed in detail in the pages of this report.

While regulation of the natural gas industry captured much public attention and occupied much of the Board's time during the past year, the Board's other major responsibility, to review Ontario Hydro's rate proposals and make recommendations, was not in any way lessened. A summary of our findings in 1986-87 is included in this report.

In all, some 1000 applications were processed during the year, many without formal hearings. Throughout the year, in our activities and deliberations, we relied heavily on the professionalism and dedication of our staff. On behalf of all Board members, I wish to thank the staff for its outstanding service in a particularly demanding and challenging year.

Several members of the Board completed their terms or resigned during the year. During their terms of service they made many valuable contributions to the regulatory process in this province. We offer our sincere thanks and best wishes to John Shurie, Donald Thornton, Patrice Boisseau, Richard Perdue and Marie Rounding.

Looking ahead, I am confident that as we continue to explore the ramifications of the changes taking place, we will see positive developments in the pricing and marketing of gas, some clarification of complexities, and a new understanding and acceptance of the responsibilities of both the regulators and the regulated in this vital industry.



Robert W. Macaulay, Q.C.  
Chairman



## ONTARIO ENERGY BOARD MEMBERS



*Standing, left to right:*  
Malcolm Jackson,  
John K. Shurie,  
Mervin A. Daub,  
Joseph A. Dekort,  
Donald H. Thornton,  
Patrice E. Boisseau,  
Richard R. Perdue,  
Denis A. Dean,  
Carl A. Wolf

*Seated, left to right:*  
John C. Butler,  
Marie C. Rounding,  
Robert W. Macaulay,  
Candace U. Craddock,  
Orville J. Cook



## INTRODUCTION: NATURAL GAS AND ELECTRICITY IN ONTARIO

Ontario relies heavily on natural gas as an energy source and as a feedstock, primarily in the production of chemicals. Natural gas is the major fuel for all sectors of the economy except transportation, and it is the primary fuel for space and water heating in homes and institutional and commercial buildings.

Ontario's use of gas is the largest of the consuming provinces, accounting for approximately 33 percent of the total demand for Canadian natural gas. Because of the dependence on this source of energy, its impact on industrial competitiveness, and the limited capacity to switch to alternate fuels, the cost and availability of natural gas are vital concerns.

Electricity provides approximately 17 percent of the total energy consumed in the province, and its use is growing. In the past ten years the consumption of electricity has increased by nearly 40 percent. Thus electric power planning for the future is crucial. The Ontario Energy Board has a role to play in this process.

The Ontario Energy Board regulates the natural gas industry in a variety of ways including rate setting, approval of franchise agreements and authorizing the installation of transmission lines. The Board also acts as an advisor to the Minister of Energy on matters relating to the natural gas industry as well as Ontario Hydro. The Board makes recommendation with respect to any proposed Hydro rate increases. Several of these responsibilities are described later in greater detail.

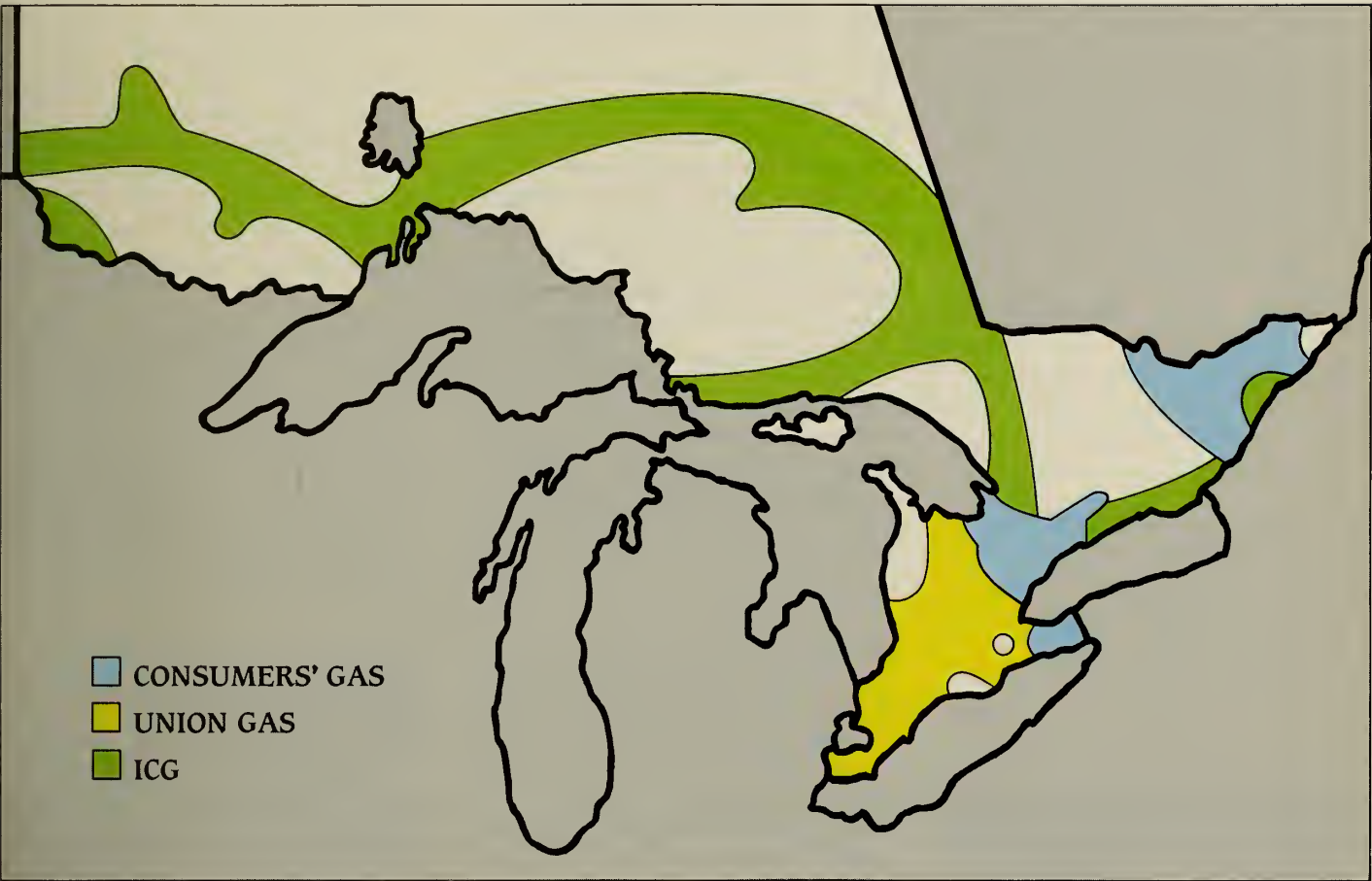


*A hydro transmission line is constructed in northern Ontario.*



*Laying pipeline for natural gas near Cambridge crossing the Grand River.*

# NATURAL GAS DISTRIBUTION IN ONTARIO



## Highlights of Three Major Gas Utilities under Board Jurisdiction

Firm	Year Ending	Assets	Average Rate Base	Gas Sales Revenues	Average Residential Bill	Number of Customers
Union	(Mar. 31/87)	\$1,355,942,000	\$ 888,086,000	\$1,377,366,000*	\$831.04	534,750
Consumers' Gas	(Sept. 30/86)	\$1,725,830,000	\$1,294,100,000	\$1,638,300,000	\$846.71	880,994
ICG Utilities (Ontario) Ltd (Northern and Central)	(Dec. 31/86)	\$ 459,352,600	\$ 370,116,000	\$ 465,305,100*	Western \$891.11	154,312
					Northern \$909.42	
					Eastern \$829.09	
<b>TOTAL</b>		\$3,541,124,600	\$2,552,302,000	\$3,480,971,100		1,570,056

\*Includes revenue from storage and or transportation of gas for others.

# THE ONTARIO ENERGY BOARD—ITS ROLE AND RESPONSIBILITIES

## Rate-setting — Natural gas

Each natural gas utility sells and transports gas in franchised areas of the province. Competition in the sale of gas now exists both through the option to purchase gas directly and from suppliers of alternative energy sources. Since the transportation of gas involves an extensive network of pipelines and storage facilities, a monopoly over transportation optimizes efficiency and avoids duplication and the attendant cost increases that would result.

In Ontario, gas must be sold under a Board-approved rate Order. Gas distributors are required by legislation to submit rate proposals to the Board for review and approval, which usually takes place on an annual basis.

Rates vary among residential and all other customers and among classes of commercial and industrial customers. Rate setting is not an exact science, but it does attempt to reflect the costs imposed on the system by the varying demands of different classes of customers. For example, the demand among residential consumers using natural gas as a heating and cooking fuel depends on the weather and the time of day. On a per unit basis, it is more costly to provide service to residential users than to industry, which uses relatively large amounts of gas at a more consistent level.

Setting rates involves striking a balance between the prices to be paid by customers and a fair rate of return for shareholders.

Rates are set for each utility following public hearings. In fixing rates for the future, the Board considers past, present and projected expenses as well as current and forecast economic conditions and trends, and the earnings expectations of those who provide the capital required to operate the utility.

During rate hearings the OEB also considers the quality of service provided to customers, including matters such as safety and reliability, in order to ensure that service is commensurate with the rates charged.

## Interim Rate Adjustments

Where significant changes in a utility's costs or revenues have occurred or will occur that will cause the financial integrity of a utility to be at risk, the Board may grant interim rate relief. This is usually done within the framework of a rates application and is subject to refund or other adjustment after the rates application has been completed.

## Pipeline Construction

The Ontario Pipeline Co-ordination Committee (OPCC) is an interministerial committee concerned with the environmental impact of pipeline construction. Since 1980 the OPCC has reviewed over 60 projects involving 1300 km of pipeline construction. Other system facilities, such as consumers' Gas Liquid natural gas plants are also reviewed by the OPCC.

The OPCC is chaired by a staff person from the Ontario Energy Board and includes representatives from the Ministries of Agriculture and Food, Energy, Environment, Consumer and Commercial Relations, Natural Resources, Citizenship and Culture, Municipal Affairs, Housing, Transportation and Communications and other regional agencies as required, such as the Niagara Escarpment Commission. The natural gas utilities consult with these agencies in the early stages of their planning.



*Union Gas compressor plant, Dawn, Ontario.*



The objective of the OPCC is to avoid any long-term negative impact on the environment and to minimize the short-term impact during construction. This is achieved through the review of project proposals, including route or site alternatives, and resolution of issues before formal application for leave to construct has been filed with the Board.

### **Certificates of Public Convenience and Necessity**

These certificates give permission to construct gas works and to supply gas to municipalities.

### **Franchise Agreements**

Each municipality must authorize the supply of gas and the construction of distribution works in the municipality through a by-law. Negotiations regarding terms and conditions are held between the utility company and the municipality involved. The terms and conditions of the franchise agreements reached must then be approved by the Board.

Many of the existing agreements date back 30 years or more, and most have expired and have been renegotiated. Where circumstances have changed substantially since the time the original agreement was made, the renegotiation can be a lengthy and complex process.

### **Natural Gas Storage Areas**

A vital link in the natural gas distribution system in Ontario is the availability of storage for gas in depleted gas wells in southwestern Ontario. These storage areas are used by transmitters and distributors to meet fluctuating demand and to draw on in case of emergency.

Gas is normally injected into storage during the summer months when demand is low, to be withdrawn in high consumption periods during the winter. This load balancing function makes it possible for the transmission system from western Canada to operate in a highly efficient manner.

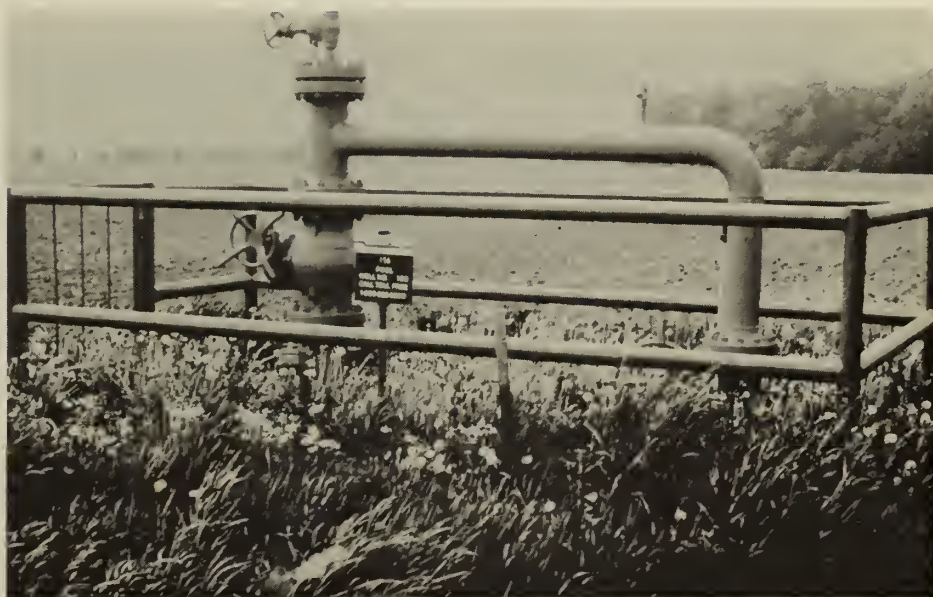
Gas may not be injected into any geological formation unless it is a designated gas storage area. The OEB approves a formation for storage and authorizes the injection, storage and removal of natural gas within such storage areas.

### **Monitoring Performance**

In addition to the information filed in support of rate applications, the Board receives regular information from natural gas utilities regarding financial operations and performance. Where underearning or overearning occurs, the Energy Returns Officer, a staff member of the OEB, may conduct a special audit. The Board may, on its own motion, require a utility to appear before it to explain either excess earnings or underearnings.



*Aquatic environment testing. The Energy Board oversees the Ontario Pipeline Co-ordination Committee, which ensures that the environment is not threatened by natural gas installations.*



*A natural gas storage wellhead. Storage of natural gas is also regulated by the Ontario Energy Board.*

## Accounting Procedures

Natural gas utilities must conform to a uniform system of accounts as prescribed by the OEB. Amendments to the system were initiated in fiscal 1986-87. No change in accounting practices may take place without the Board's approval.

## Changes in Ownership

A utility wishing to sell its assets or amalgamate with another utility and any individual who wishes to acquire shares of a utility, such that the individual will hold more than 20 percent of any class of shares, requires the leave of the Lieutenant Governor in Council. The Board may recommend exemption from a hearing or may hold a hearing and submit its report and opinion to the Lieutenant Governor in Council.

## Legislation

In addition to the *Ontario Energy Board Act*, five other legislative acts give the OEB jurisdiction:

- the *Municipal Franchises Act*;
- the *Petroleum Resources Act*;
- the *Public Utilities Act*;
- the *Assessment Act*; and
- the *Toronto District Heating Corporation Act*.

The nature of public utilities changes in keeping with the changes in the economic and social environment in which they operate. As such, it is appropriate for the Board to review legislation relating to public utilities and, if necessary, propose amendments.

## Generic Hearings and References

A generic hearing may be held on the Board's own initiative, in response to an emerging trend in the industry or to an area of growing interest or concern. It deals with a subject in a broader context than issue-specific hearings.

An energy-related matter may also be referred to the Board by the Lieutenant Governor in Council, the Minister of Energy or the Minister of Natural Resources for review at a public hearing.

Recent examples of generic hearings and references include the T-rate/bypass or contract carriage decision, the review of franchise agreements, system expansion and liquefied natural gas storage facilities proposed by Consumers' Gas. These cases are reviewed in detail later in this report.

## Ontario Hydro

Ontario Hydro's bulk power rates are set by Hydro's own board of directors. However, a Hydro rate proposal is referred to the OEB by the Minister of Energy, along with full technical information and financial data, and a public hearing is held. The Board submits a report with recommendations to the Minister of Energy and to the Chairman of Ontario Hydro. The recommendations are not binding on Ontario Hydro or its board of directors, which has the responsibility for fixing final rates.



Laying plastic pipe for the transmission of natural gas.



# ACTIVITY REVIEW

The following pages contain lists of activities carried out by the Board between April 1, 1986, and March 31, 1987, as well as reviews of selected cases.

Cases may have three stages: hearing, Report or Reasons for Decision, and, where appropriate, Board Orders.

Cases included in the following lists may have only proceeded through one stage of the hearing process; some cases bridge from one fiscal year to the next before a Decision or Report is issued, depending on the timing of hearings.

## **CMP – Board Interim Orders**

File Number	Originator/Applicant	Matter
EBRO 413	Union	243 applications including extensions and vary orders
EBRO 415	Northern & Central/ICG	233 applications including vary orders
EBRO 417	Consumers'	342 applications including extensions and vary orders
EBRO 426	Inter-City Gas	2 one application and one vary order

## **T-rate Applications**

EBRO 410	Consumers'	78 applications including extensions and vary orders
EBRO 411	Northern & Central/ICG	4 applications including vary orders
EBRO 412	Union	23 applications including extensions and vary orders

## **Buy/Sell Arrangements**

EBRO 424	Union	27 applications including extensions and vary orders
EBRO 432	Consumers'	13 applications

## **References from the Lieutenant Governor in Council**

EBRLG 28A	Unicorp	Rescind or vary EBRLG 28 Cost Order
EBRLG 29	Lieutenant Governor in Council	Reference Re: LNG
EBRLG 30	Gulf Canada	Acquisition of Consumers' Gas Shares
EBRLG 31	Inter-City Gas	Transfer of Assets

## **Reports to the Minister**

EBRM 82	Tecumseh	Permit to Drill Kim – Col #51 Moore 18 – VII
EBRM 83	Union	Permit to Drill Bickford, Terminus, Waubuno, Dawn, Payne
EBRM 84	Petrosar	Permit to Inject Moore 1-23-IX
EBRM 85	Union	Permit to Drill Bickford, Teminus, Dawn (47-49)

## **Reference from the Minister of Energy Regarding Ontario Hydro**

HR 15	Ontario Hydro	Bulk Power Rates
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## **Uniform Accounting Orders**

UA 60	Union	Exclusion of Surtax
UA 61	Union	Tools and Work Equipment Increase
UA 62	Union	Gas Costs
UA 63	Consumers'	Gas Costs
UA 64	ICG	Gas Costs
UA 65	Union	Yankee International
UA 66	Consumers'	Certain Gas Costs

File Number	Originator/Applicant	Matter
<b>Pipeline Exemptions</b>		
PL 50	Union	Exemption: Owen Sound Replacement
PL 51	ICG	Exemption: Iron Bridge 60.3 Line
PL 52	Union	Exemption: Ingersoll
PL 53	Union	Exemption: Amherstburg Line Replacement
<b>Certificates of Public Convenience and Necessity</b>		
EBC 139	Northern & Central Consumers'	Cert: Township of Oro
EBC 171	Consumers'	Cert: Village of Chalk River
EBC 172	Consumers'	Cert: Town of Deep River
EBC 173	Consumers'	Cert: Townships of Rolph, Buchanan, McKay & Wylie
EBC 174	ICG	Cert: Town of Thessalon
EBC 175	ICG	Cert: Town of Bruce Mines
EBC 176	ICG	Cert: Township of Hagar
EBC 177	Northridge Petroleum	Cert: All Ontario Municipalities
EBC 178	Actor	Cert: All Ontario Municipalities
EBC 179	Brenda Marketing	Cert: All Ontario Municipalities
EBC 180	Consoligas Management Limited	Cert: All Ontario Municipalities
<b>Franchise Approvals</b>		
EBA 435	Northern & Central	Franchise: Township of Oro
EBA 472	OEB	Rehearing of Lambton and Blenheim
EBA 473A	Consumers'	Extension: Town of Shelburne
EBA 474A	Consumers'	Extension: Town of Caledon
EBA 475A	Consumers'	Extension: Township of Innisfil
EBA 476A	Consumers'	Extension: Township of Amaranth
EBA 477	Consumers'	Franchise: Township of Whitby
EBA 477A	Consumers'	Extension: Township of Whitby
EBA 478	Consumers'	Franchise: Townships of Rolph, Buchanan, McKay & Wylie
EBA 479	Consumers'	Franchise: Township of Mulmur
EBA 479A	Consumers'	Extension: Township of Mulmur
EBA 480	ICG	Franchise: Town of Thessalon
EBA 481	ICG	Franchise: Town of Bruce Mines
EBA 482	ICG	Franchise: Township of Plummer Additional
EBA 483	ICG	Franchise: Township of Johnson
EBA 484	ICG	Franchise: Town of Cobourg
<b>Pipeline Construction and Expropriations</b>		
EBLO 214	Northern & Central	Leave: North Bay - Sudbury Loop
EBLO 215	Consumers'	Leave: NPS 36 - Parkway Belt West

<b>File Number</b>	<b>Originator/Applicant</b>	<b>Matter</b>
EBLO 216	Consumers'	Leave: Deep River & Chalk River
EBLO 220	ICG	Leave: 4 North Shore Lines
EBLO 222	Union	Leave: Toyota Transmission Pipeline
EBLO 215(1)	Consumers'	Val Velzen (CANCELLED)
EBLO 215(2)	Consumers'	Shypka (SETTLED)
<b>Natural Gas Rate Reviews and Interim Rate Reviews</b>		
EBRO 392-6	Wellandport	Interim: Liability Insurance Premium
EBRO 392-7	Wellandport	Request for extention of Interim Rates
EBRO 404-2	ICG	Interim Rates (Rio Algom, Denison Mines, Eldorado Nuclear)
EBRO 404-3	ICG	Interim Rates (Rio Algom, Denison Mines, Eldorado Nuclear)
EBRO 405-2	Union	Rates
EBRO 405-2A	Consumers'	Vary EBRO 405-2 (DISCONTINUED)
EBRO 405-3	Union	Rehearing of Rate to Petrosar
EBRO 407-A	NRG	Rates
EBRO 408	Northern & Central	Rates
EBRO 409	Kidd Creek	Rates
EBRO 410	Consumers'	T-Rates
EBRO 411	Northern & Central	T-Rates
EBRO 412	Union	T-Rates
EBRO 414	Consumers'	Rates
EBRO 414-1	Consumers'	Cost of Gas Reduction
EBRO 416	NRG	Rates
EBRO 418	Union	Rates
EBRO 418-A	Union	Vary Petrosar Order in EBRO 418
EBRO 418-B	Union	To Vary EBRO 418 Order
EBRO 419	Consumers'	To Vary or Rescind EBRO 405-2 (DISCONTINUED)
EBRO 420-1	Consumers'	CMP Rate TCPL – WGMIP
EBRO 421-1	ICG	WGMIP
EBRO 422-1	Union	WGMIP
EBRO 423-1	Union	Rates – Storage Contract with Gaz Metropolitan
EBRO 425-1	Inter-City Gas	WGMIP – Boise Cascade
EBRO 427-1	Union	Interim Storage Rate for Consumers' Gas
EBRO 428	CIL	Rate with Union
EBRO 429	Union	Cost of Gas Reduction
EBRO 430	ICG	Rates
EBRO 430-1	ICG	Cost of Gas Reduction
EBRO 430-1A	ICG	To Vary EBRO 430-1 Decision – Date Extension
EBRO 431	Union	Short Term Storage Agreement – Sulpetro

File Number	Originator/Applicant	Matter
EBRO 431-1	Union	Interim Short-Term Storage Rates-Sulpetro
EBRO 433-1	Union	Interim Transportation Rates "Interruptible and Reasonable Efforts"
EBRO 435	Cyanamid	Application for Special Rate
<b>Other Energy Board Orders</b>		
EBO 123	Union	Designation of Lands East of Bickford Place
EBO 123A	Magder	To vary EBO 123 Report
EBO 125	OEB	Review of Franchises & Certificates
EBO 129	Union	Amendments to Storage Contracts—Kingston PUC
EBO 130	Gaiswinkler	To have Brett as Designated Manager of Gobles Pool
EBO 131	Union	Amendment Contract with Gaz Metropolitan
EBO 132	Union	Short Term Storage Agreement—Consumers'
EBO 133	Union	Short Term Storage Agreement—Sulpetro
EBO 134	OEB	System Expansion Review
EBO 135	Consumers'	Hillman Pool Unitization

### **E.B.R.L.G. 29: Reference to Review Proposed Liquefied Natural Gas (LNG) Storage Facilities**

In April, 1985, Consumers' Gas announced a plan to construct an LNG storage facility in Haldimand Township to accommodate peak gas demands. The facility was proposed as a peak shaving plant to handle the company's peak temperature sensitive load by 1994.

The LNG plant was to be built on a 180 hectare site. The company proposed that the capacity of the storage tank would be 92,000 m<sup>3</sup> (liquid) and the process facilities would be capable of supplying 8,500 10<sup>3</sup>m<sup>3</sup> (gas) for the seven peak days anticipated in 1994. The anticipated cost of the project was approximately \$74 million.

On October 15, 1985, Consumers' applied to the Ontario Energy Board for leave to construct two pipelines to and from the proposed LNG facility. By Order-in-Council No. 327/86, dated January 30, 1986, the Board was required to hold a public hearing to examine certain aspects of the LNG facility.

The Order-in-Council required the OEB to examine:

- (a) the need for the Project;
- (b) the alternatives to the Project which will satisfy that need;
- (c) the safety considerations associated with the Project;
- (d) the advantages and disadvantages of the Project, the alternatives to the Project and the six candidate sites considered by the applicant, taking into account the physical, social, economic, and natural environment, including the effects on air, land and water; and
- (e) the economic feasibility of the Project.

Since Consumers' proposal aroused the interest of many residents and landowners in the vicinity of the site selected in Haldimand Township, the Board chose to hold the hearing in Cobourg, about 15 kilometers from the proposed site.

The Board issued its Report to the Lieutenant Governor in Council on December 12, 1986. The Report concluded that construction of the LNG facility, as proposed by Consumers', was not in the public interest.

The Board questioned the reliability of Consumers' forecasts of customer demand since the applicant had consistently overestimated peak day demand in the period examined during the hearing. The Board concluded that the need for the facility had not been adequately established.

Consumers' evidence at the hearing demonstrated that several alternatives to the LNG facility had been considered. The Board concluded that these alternatives were either too costly or would not meet Consumers' perceived need. However, the Board found Consumers' had not adequately explored demand management techniques as an alternative to constructing new facilities.

During the hearing, Union Gas Limited presented two alternatives which involved developing additional underground storage and pipeline facilities in southwestern Ontario as a means of meeting Consumers' forecast need.



The Board found that one of the Union proposals met Consumers' perceived need and offered greater advantages to the Ontario public as a whole than did the LNG facility. The Board found Union's proposal to be less costly in the long term and more flexible in that the project could be completed in stages and could economically serve both peak day demand and demand over a longer period of time. It was, therefore, a more viable and reliable alternative than the LNG facility.

While recommending that the Lieutenant Governor in Council not approve the LNG facility, the Report discussed other issues including safety, environmental impact, site selection and pipeline construction. The Board indicated that these matters should be further explored if its recommendations were not followed and the LNG project were allowed to go ahead.

Safety concerns had been raised by a number of participants during the hearing. Consumers' demonstrated that the technology exists to permit the construction and operation of the proposed LNG facility at an acceptable level of safety. However, the Board stated in its report that if the project were to be carried out, Consumers' should be required to ensure that proper safety features would be incorporated in its design and meticulous attention should be given to quality control to prevent any undue risk to the public.

The design of the storage tank selected by Consumers' was acceptable to the Board. However, the Board recommended that if the project proceeded, additional information regarding construction, operational safety, and inspection and evacuation procedures would be required.

**E.B.R.L.G. 30:  
Gulf Canada Corporation  
Acquisition of Consumers' Gas**

In April 1986, Gulf Canada Corporation acquired control of Hiram Walker Resources Ltd., and with it, 82.9 percent of the shares of The Consumers' Gas Company Ltd. Gulf proposed to transfer this holding in Consumers' to a new company and possibly to a second new company. Under section 26 of the *Ontario Energy Board Act*, Gulf was required to seek the permission of the Lieutenant Governor in Council. This permission was sought through an application to the Board.

The Board heard evidence on this matter during five hearing days from October 8 to 17, 1986. The evidence given pertained to various aspects of the public interest that could be affected by the proposed transaction.

The Board's report was submitted to the Lieutenant Governor in Council on November 17, 1986. It recommended that the proposed transfers be approved, subject to certain conditions. The major conditions, or undertakings, pertained to the independence of Consumers', affiliated and related party transactions and the maintenance of Consumers' financial integrity. The Board feels that these undertakings adequately protect the public interest.

**E.B.L.O. 216:  
Application to Serve  
Deep River and Chalk River**

Consumers' applied to the Board on April 14, 1986, for leave to construct gate stations and pipelines to supply the Village of Chalk River, the Town of Deep River and the Township of Rolph, Buchanan, Wylie and McKay, in the County of Renfrew. The hearing was held in Toronto on August 20, 1986.

In its Reasons for Decision dated September 5, 1986, the Board indicated that the public interest had not been fully addressed by the evidence and that the project did not pass Consumers' economic feasibility test. While the Board rejected Consumers' application, it noted that certain matters regarding system expansion, including the economic feasibility tests used by the local distribution companies, should be examined in a special hearing.

The Board further noted that important issues concerning system expansion to smaller communities should be considered and that these could best be addressed outside a specific application and that the Board would call a special hearing for this purpose in early 1987. The recommendations from the special hearing were expected to help determine whether new guidelines should be developed by the Board for "leave to construct" applications.

On January 9, 1987, the OEB issued Notice of a "Review by the Ontario Energy Board of the Expansion of the Natural Gas System in Ontario", under Board File E.B.O. 134. The procedure set out in the notice was designed to obtain input to the Board's review through written submissions in response to a paper developed by Board staff. Submissions were received from all major utilities and a two-day technical conference was held in April, 1987, to discuss the submissions. The Report will be reviewed in next year's annual report.



### Test Year ending September 30

	1986	1987	1987
Rate Base (\$000's)	1,284,200	1,304,100	1,305,400
Utility Income (\$000's)	159,700	156,600	158,800
Indicated Rate of Return on Rate Base	12.44%	12.01%	12.16%
Cost of Capital			
Long term Debt	11.98%	12.00%	12.07%
Unfunded Debt	10.00%	10.13%	9.30%
Preference Shares	11.27%	11.26%	11.26%
Common Equity	15.00%	15.00%	14.00%
Allowed/Requested Return on Rate Base	12.59%	12.97%	12.58%
Gross Revenue Deficiency (\$000's)	4,200	26,400	11,500

#### **E.B.R.O. 414: The Consumers' Gas Company Ltd.**

Consumers' is Canada's largest natural gas distribution utility, serving about 850,000 residential, commercial and industrial customers in south, central and eastern Ontario, western Quebec and northern New York state. Consumers' annual gas deliveries in Ontario are approximately 9.0 10<sup>9</sup>m<sup>3</sup>.

By application dated March 12, 1986, Consumers' requested rate increases for all customers effective October 1, 1986, in order to recover a projected \$37.9 million gross revenue deficiency for its 1987 test year. The hearing began on June 5, 1986, and lasted seventeen days. The Board issued its decision on October 1, 1986.

During the course of the hearing, a number of modifications were made by Consumers' to its original submission, resulting in reductions to the claimed revenue deficiency. The following table shows the key financial elements of Consumers' final submission and the Board's decision. Data from the previous Board decision, which was for Consumers' 1986 test year, is shown for comparison.

#### **E.B.O. 125: Municipal Franchise Agreements**

On May 21, 1986, the Ontario Energy Board issued a Report on Municipal Franchise Agreements for gas distribution based on a hearing held in November and December of 1985. The hearing had been called by the Board because of a growing conviction that municipal franchise agreements, many of which originated 30 years ago or more, needed to be reviewed by all parties involved—municipalities, gas distributors, gas consumers and the Board itself.

Municipal franchise agreements generally consist of two elements:

- (1) the rights granted to the gas utility by the municipality to supply gas to the inhabitants and to use the municipal road allowances to install a pipeline system; and
- (2) the responsibility of the gas utility to comply with municipal requirements in return for the right to occupy the roadway. While most franchise agreements originated in the years following 1957, when natural gas from western Canada was brought to Ontario, some agreements, particularly in southwestern Ontario (the franchise area held by Union Gas) date from the early 1900s.

As the Board report emphasized at the outset, "the most valuable consequence of the hearing... was the process of mutual education and understanding between the participants that developed... in the course of discussion of a number of major issues." The report encouraged these discussions to continue and urged all municipalities which have not already done so to create Utilities Co-ordinating Committees.

A major proposal of the report was the creation of a multi-party working committee, the Municipal Franchise Agreement (MFA) Committee, comprising four municipal representatives designated by the Association of Municipalities of Ontario, four representatives designated by the Ontario Natural Gas Association, including representatives from each of the three major gas utilities, and Board staff.

The sharing of costs of gas line relocations was a major issue at the hearing. The report noted that although actual costs to municipalities and utilities are not excessively high, the sharing of these costs is the cause of many disputes. There is a wide range of cost-sharing practices in use in Ontario, but the report does not recommend any of the existing formulae and does not approve of widespread reliance on the *Public Service Works on Highways Act*. The Board said it expects the MFA Committee to establish a new model formula which would eliminate the distinction between the cost of labour and other costs and identify an appropriate percentage range for the municipal share of total relocation costs.

Both municipalities and utilities would like to move towards greater province-wide standardization in municipal franchise agreements. However, there must be room for negotiation between parties, and sufficient flexibility to accommodate local conditions and circumstances. The major task of the MFA Committee is to draft a model agreement to which parties and the OEB can refer as new agreements and renewals come before the Board for approval. At year end, the MFA Committee was making significant progress. A report to the Board is expected in the new fiscal year.

**E.B.R.O. 410, 411, 412:  
Contract Carriage Rates (T-Rates)**

Following its Interim Decision of April 4, 1986, the Board, in July, 1986, called hearings on its own motions to examine contract carriage arrangements for Consumers', Union and ICG (formerly Northern and Central). The hearings were combined so that elements common to all three distributors could be considered.

The hearing took place between September and December of 1986.

During the hearing the Board heard evidence on the following major issues: bypass; brokers; unbundled rates; distance-based, postage stamp or value of service rates; group billing and multiple location billing; demand charges; T-rate criteria; diversions; security of supply; storage; variation accounts; separation of transportation services and marketing activities; affiliate transactions; and jurisdictional matters.

The bypass issue was heard first, and because of its significance and jurisdictional implications, separate Reasons for Decision were issued on December 12, 1986. The Board found "...that the Province of Ontario and this Board, as its delegate, has jurisdiction over bypass within Ontario...it is important to remove any uncertainty with respect to its jurisdiction and (the Board) will therefore state a case to the Divisional Court of the Supreme Court of Ontario." The Divisional Court heard this matter on March 17 and 18, 1987, rendering an oral decision confirming that the Board has jurisdiction.

The Board also stated that "a general policy opposing bypass is not in the public interest. The Board will consider each application for bypass on the basis of its individual merits."



*Aluminum billet furnace, Chatham, Ontario (Daymond, A Division of Redpath Industries Ltd.). Natural gas is a source of energy for industries across Ontario.*

Reasons for Decision on the remaining issues were issued on March 23, 1986. For the purposes of that Decision, the Board defined the core market as those volumes that are sold by the local distributing companies (LDCs), excluding buy-sell volumes. It also stated that anyone who wished to buy direct could do so.

The Board found that the supply of gas should be protected by the LDC, which should make any contractual arrangements necessary to ensure that gas will be available. It further stated that the responsibility for security of supply to the non-core market rests with the direct purchasers themselves.

In order to encourage market-responsive prices for natural gas, the Board found that at least three conditions should be met:

- All natural gas consumers must be free to choose their supplier of natural gas;
- Transportation service on TCPL's (Trans-Canada PipeLines) and the LDCs' systems must be provided to all gas consumers on equal terms; and
- Buyers must have access to sufficient information concerning market prices for gas.

The Board also found that brokers could assist in developing a competitive gas supply market in Ontario, provided they observe provincial legal requirements and that unbundled services are a necessary part of the movement toward a more competitive commodity market for natural gas. The Board directed the utilities to segregate the cost of gas from the cost of transportation and develop cost studies for transportation, storage, load-balancing and best efforts back-stopping services.

With respect to rate types, the Board found that postage stamp rates are appropriate but that the flexibility needed to compete with a credible bypass application may be provided through the recognition of value of service criteria or distance factors. The Board also found that groups should be permitted to be formed for the purpose of improving gas purchasing power. As well, the Board found that minimum volumes are not required for T-service.

The Board found that sales customers who change to T-service should be allowed to retain their existing storage entitlement. Unused storage would be available on a first come, first served basis.

To facilitate equal access to T-service, the Board found that the separation of marketing and transportation functions was necessary, as this would improve the competitive environment by ensuring that LDCs market gas on equal terms with brokers and producers. The separation would eventually entail separate corporate entities.

The Board reiterated its position that it has the power to compel an LDC to provide services to any qualifying customer, noting that this is a natural part of the Board's jurisdiction as a regulator of gas monopolies.

The Board outlined three mechanisms which the legislation currently requires it to control the operation of brokers in Ontario: through approval of a municipal by-law, or franchise; a certificate of public convenience and necessity issued by the Board; and an order approving or fixing just and reasonable rates and other charges for the sale of gas (gas cannot be sold in Ontario without such an order from the Board).

The Board also stated that it planned to review, consolidate and clarify all legislation affecting natural gas regulation and recommend amendments to reflect changes in the gas industry in the 25 years since the legislation was introduced.

The Board ordered the utilities to file new rate proposals during the summer of 1987 so that final implementation of contract carriage rates could take place in the fall of 1987. The Board also expressed its intention to issue a separate Decision regarding the licencing and operation of four brokers who have each filed for a certificate for public convenience and necessity covering all of Ontario. That Decision will be discussed in next year's annual report of the Board.



**E.B.R.O. 430:**  
**ICG Utilities (Ontario) Ltd (ICG)**

ICG (formerly Northern and Central Gas Corporation Limited) serves approximately 120 communities in northwestern, northern and eastern Ontario. It operates a natural gas distribution system consisting of some 5,600 kilometres of pipeline originating at more than 80 delivery points on the TCPL transmission system. Essentially, the ICG system is a series of laterals off the TCPL pipeline as it crosses Ontario, starting at Kenora and extending to the shores of Lake Ontario and the St. Lawrence River.

By application dated October 6, 1986, ICG requested approval to increase rates and other charges effective January 1, 1987. Although ICG provided some of its prefiled evidence with its application, complete evidence was not filed until January, 1987. Consequently a decision could not be issued until later in 1987. ICG requested interim relief, subject to refund, in order to recover costs and expenses and to earn a rate of return on common equity of 14.75 percent. The hearing into the main rate application commenced on January 26, 1987, and concluded on February 20, 1987.

On March 10, 1987, the Board issued notice that the hearing into ICG's main rate application would be reopened to examine the operational aspects of transportation arrangements between ICG and certain end-users, as well as to evaluate ICG's efforts in obtaining regulatory compliance and approval.

After denying a motion that the Board should not reopen the hearing, the date was set for April 1, 1987. Details of the hearing as well as the Board's Decision in the main case will be included in next year's annual report.



*Ontario's steel industry is a heavy user of natural gas.*

## **E.B.R.O. 405: Union Gas Rate Proposal**

Union Gas Limited is the second largest gas distributor in Ontario, serving approximately 518,000 customers in south-western Ontario. Union also operates a network of pipeline, storage and compression facilities to provide service to customers and other utilities in eastern Ontario and Quebec.

The hearing into Union's application for a rate increase for fiscal 1987 was held under Board file E.B.R.O. 405-2 during November and December of 1985 and January of 1986. The Board issued a Decision on April 3, 1986, with Reasons following on May 5.

The Board found the use of a test year ending March 31, 1987, to be appropriate and determined that:

- In view of the recent renegotiation of the SNG contract with Petrosar Limited it was inappropriate to deal with Premium Account 4 in the proceeding;
- Union's utility rate base, net of accumulated deferred income taxes, was \$888,068,000;
- A reasonable rate of return on such a rate base is 12.58%;
- Union's revenue deficiency was \$4,357,000;
- Union's proposals for rate changes for storage and transportation customers were acceptable.

Union's evidence showed that the increase revenue from storage and transportation customers would exceed the found revenue deficiency. Union was directed to retain existing rate schedules for all customers and to record the difference between the found revenue deficiency and the increase revenue from storage and transportation customers. The Board issued a further order in June 1986 which incorporated revisions in Union's rate schedules and structure.

	<b>EBRO 405-1 Previous Decision Oct. 28/85</b>	<b>EBRO 405-2 Final Union Submission</b>	<b>EBRO 405-2 New Board Decision</b>
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### **Test Year Ending March 31**

	<b>1986</b>	<b>1987</b>	<b>1987</b>
Rate Base (\$000's)	880,392	895,096	888,086
Utility Income (\$000's)	115,278	90,195	109,690
Indicated Rate of Return on Rate Base	13.09%	10.08%	12.35%
Cost of Capital			
Long-term Debt	12.01%	12.51%	12.51%
Short-term Debt	10.50%	8.80%	8.80%
Preference Shares	10.05%	10.18%	10.18%
Common Equity	15.60%	16.00%	14.75%
Allowed Rate of Return on Rate Base	12.75%	13.05%	12.58%
Revenue Deficiency (\$000's)	321*	56,706	4,357

\*After adjustment for amortization of Petrosar Premium Account 3



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**E.B.R.O. 418:  
Union Gas – Application  
to Vary Rates Order**

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In April of 1986, Union requested an order varying the Board Order E.B.R.O. 405-2 (see above). Union also requested an order approving or fixing rates to recover the balance in Synthetic Natural Gas (SNG) Petrosar Premium Account 4. This account consisted of the excess costs over the traditional sources of supply arising from a contract Union entered into with Petrosar to obtain a secure supply of gas. The SNG is more costly than traditional sources of supply.

Union requested other relevant accounting orders to record continuing premium cost of the SNG premium, considerably reduced as a result of the 1986 agreement between Union and Petrosar. The hearing was held from May 12 to May 16, 1986.

The Board considered Union's attempt to lower the SNG premium, through an agreement with Transcontinental Pipeline Corporation to export SNG at the official gas export price, along with the 1986 agreement with Petrosar, to be insufficient justification for the total recovery of Premium Account 4 through rates. However, the Board found that the remaining balance, after the deduction of the Transco settlement and various Energy Exchange Agreement amounts, should be amortized to future costs according to a specific amortization schedule.

In previous cases, the Board evaluated Union's efforts to mitigate Petrosar premium costs in deciding the extent of cost recovery. The Board continued to observe these same principles when assessing SNG premium costs accumulated before the 1986 agreement.

The Board recognized that the Transco settlement and the proposed 1986 agreement were efforts to mitigate costs. Nevertheless, the Board found that it would continue to require efforts to lower the SNG premium over and above the contractual discount before finding an amount to be recovered through rates. The Board found that 75 percent of the premium net of the discount should be apportioned to the customers, and 25 percent to the shareholders.

The Board made no finding as to future premiums, since there was no contract at that time and no indication that there would be an agreement between the parties.

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**E.B.R.O. 418A:  
Union Gas – Recovery  
of SNG Costs**

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In August, 1986, Union Gas applied to vary Ontario Energy Board Order E.B.R.O. 418 to include a provision for recovery of the ongoing costs of the SNG premium through prospective rates. These costs resulted from the renegotiated 1986 agreement between Union and Petrosar.

The Board upheld its findings from E.B.R.O. 418 noting that principles regarding sharing, mitigation and the incentive to mitigate still apply, and that the move to collection and institution of variation accounts did not change these principles. The Board did find that 25 percent of the balance accumulated in SNG Premium Account 5 should be transferred and recorded in a designated SNG Premium Deferral Account. The remaining 75 percent of the SNG premium cost incurred by Union would be accumulated in SNG Premium Account 5.

The Board also found that net revenues received by or credited to Union in mitigation of SNG premium costs should be credited equally to the SNG Premium Account 5 and the SNG Premium Deferral Account. The balance in the SNG Premium Account 5 would be amortized to Union's cost of gas and recovered in Union's rates during the balance of Union's 1987 fiscal year and in each fiscal year thereafter. This charge would increase Union's rates.

The Board also gave Union the opportunity to apply for recovery of the balance in the SNG Premium Deferral Account at the end of each fiscal year, or, alternatively, to write off the balance at the end of each fiscal year.

## **E.B.R.O. 414-1, 429, 430-1: Gas Cost Reductions**

In the fall of 1986, the three major utilities, Consumers' Gas, Union Gas and ICG, applied to the Board for orders to reflect reductions in their cost of gas in a lowering of rates. The reductions resulted from a Memorandum of Agreement between each company and TransCanada PipeLines Limited or Western Gas Marketing Limited (the marketing arm of TCPL). These memoranda in turn were the outcome of the October 1985 Agreement on Natural Gas Markets and Prices, which provided for negotiation of prices of all gas moving interprovincially beginning November 1, 1986.

The memorandum each company had signed provided for a 20¢ per gigajoule reduction in the cost of all contract gas purchased from TCPL from September 1986 to October 1987. It also called for additional price discounts to be passed on to certain of each company's industrial and commercial customers. Proposals made by the utilities set discounts that meant the Board would no longer fix rates for large volume customers. The final cost of gas to large volume end-users would no longer be at rates approved by the Board but would be at the discretion of the utility for most customers, and the utility together with TCPL/WGML for very large customers.

The Board was concerned about approving rates that would:

- be set on the basis of criteria to which it was not party;
- require it to effectively abandon parts of its jurisdiction;
- possibly lead to undue discrimination; and/or
- be based on an agreement with a life-span of two years, which might prove to be too long.

The Board concluded that it would be in the interest of all concerned if there is sufficient time for the applicants to renegotiate the contracts with TCPL/WGML in such a way that the Board could exercise its jurisdiction according to the law.

The Board accepted the costs flowing from each company's Memorandum of Agreement until April 30, 1987 (later extended to October 31, 1987), in order to permit time for renegotiation and allow proposed criteria to be put in place and assessed. However, the Board pointed out that the renegotiation might not take twelve months and recommended that it proceed as quickly as possible.

Additional findings of a minor nature related to the different utilities were included in the Decision issued for each company.

## **H.R. 15: Ontario Hydro Rate Proposal**

Ontario Hydro's proposal to change its rates effective January 1, 1987, was referred to the Board by the Minister of Energy on April 15, 1986.

The hearing commenced on June 2 and concluded on June 27, 1986. The Board reported to the Minister of Energy on August 28, 1986.

Hydro originally proposed an average rate increase for all customers of 4.9 percent. The increase was based on a gross revenue requirement of \$5,233 million for 1987, an increase of \$344 million over the primary revenue expected in 1986.

Increased sales volumes were expected to recover \$117 million, leaving \$227 million to be recovered through the rate increase. The proposed revenue requirement included a provision for net income of \$294 million.

In its Report to the Minister, the Board recommended an average all-customer rate increase of 5.9 percent to meet a gross revenue requirement of \$5,228 million. The Board included a net income provision of \$400 million. The Board outlined six major concerns underlying its conclusions and recommendations as set out in the Report.

1. Hydro should set annual rates on the basis of realistic forecasts of its costs, in accordance with its mandate to provide power at cost for Ontario. Those costs should be reflected in Hydro's Corporate Budget. Hydro should not announce acceptance of this Board's recommendations regarding the components of its revenue requirement unless it intends to reflect those recommendations in its Corporate Budget.

2. Hydro must make a major effort to reduce its controllable costs, particularly those relating to Operations, Maintenance and Administration.

3. Net income must be increased and should be recognized by Hydro as a legitimate cost of service in its rate setting.

4. The moratorium on rate design changes agreed upon by the relevant parties should be brought to an end.

5. Conservation, defined as making the most efficient use of electricity, should now be given priority by Hydro in its marketing and system planning.

6. Conservative accounting principles should be observed by Hydro in its rate setting and budgeting. Current costs should be covered by current rates, not deferred in the expectation of future easing of costs.

**Determination of Revenue Deficiency and Average All Customer Rate Increase  
for the Year Ending December 31, 1987 (\$ millions)**

	Original Submission	Updated Forecast	Board Recommendation
Primary Sales	4,873	4,773	4,773
Revenue Requirement	5,233	5,007	5,056
Revenue Deficiency	(360)	(234)	(283)
Average All Customer Rate Increase	4.9%	4.9%	5.9%

**Pro-Forma Income Statement  
for the Year Ending December 31, 1987 (\$ millions)**

	Original Submission	Updated Forecast	Board Recommendation
Gross Revenue Requirement	5,233	5,179	5,288
Deduct—Secondary Sales	360	172	172
Net Revenue Requirement	<u>4,873</u>	<u>5,007</u>	<u>5,056</u>
Operation, Maintenance and Administration	1,120	1,070	1,037
Fuel and Fuel-Related	1,090	1,114	1,104
Depreciation	762	751	747
Interest and Foreign Exchange	1,966	1,945	1,940
Net Income	<u>294</u>	<u>299</u>	<u>400</u>



*Hydro lines stretch across the sky as the sun  
sets in Mississauga.*

# COST AWARDS TO INTERVENORS

In 1985, a generic hearing was held to review the matter of cost awards to participants in Ontario Energy Board hearings. At issue was the need to encourage broad participation in hearings and to assist participants in providing high quality input.

The Board decided on a procedure for determining cost awards involving a panel to hear applications from intervenors. During the year in review, the Board awarded costs to the following parties:

**E.B.R.O. 409**

- Kidd Creek Mines Ltd.

**E.B.R.O. 402-2**

- C-I-L Inc.
- City of Kitchener
- Industrial Gas Users Association (IGUA)
- The Association of Physical Plant Administrators of certain Named Universities (The Universities)

**E.B.R.O. 408**

- IGUA

**E.B.O. 123**

- B. Magder Enterprises, Dawn Petroleum Company, Ms. Louise Marguerite Reid, Mr. Stanley Yaki, Mr. Ross Font

**E.B.R.O. 418**

- C-I-L Inc.
- City of Kitchener
- IGUA

**E.B.R.O. 414**

- Heating, Refrigerating and Air Conditioning Institute of Canada (Toronto Chapter)
- IGUA

**E.B.R.O. 418A**

- C-I-L Inc.
- City of Kitchener
- IGUA
- The Universities

**E.B.R.L.G. 29, E.B.L.O. 207, EBC 170**

- Mrs. Lynda Forbes
- The Concerned Citizens of Haldimand Township

**E.B.R.O. 429**

- C-I-L Inc.
- IGUA

**H.R. 15**

- Energy Probe
- Association of Major Power Consumers of Ontario
- Mr. Arnold Earl
- Municipal Electric Association



# THE PUBLIC HEARING PROCESS

The Board's mandate is to regulate natural gas companies, advise the government and protect the public interest with regard to the pricing and distribution of natural gas and electricity. This is done primarily through public hearings. By providing a forum for the participation of all interested parties, a hearing ensures that the Board will render informed decisions which consider a wide variety of views and interests.

The hearing process consists of the following steps:

## 1. Initiation

The process begins:

- a) upon the receipt of an application;
- b) upon receipt of a reference from the Lieutenant Governor in Council or from the Minister of Energy or the Minister of Natural Resources;
- c) upon direction from the Board that it will initiate proceedings to consider a matter under its jurisdiction.

## 2. Notice of Application

The Board directs the applicant to serve notice of the application or itself serves notice on all affected parties and interested public groups.

For a major rate case, a natural gas utility will

- a) publish announcements of its application in regional daily newspapers;
- b) personally serve notice on municipal clerks in the utility's service area; and
- c) notify others as directed by the Board.

## 3. Interventions

Interested parties may ensure their eligibility to participate in the hearing by filing an intervention with an explanation of their reasons for intervening.

## 4. Notice of Hearing

The Board determines the scope and probable length of the hearing and directs the applicant to serve notice of the time and place of the hearing on all parties who have intervened.

## 5. Pre-Hearing Documentation

- a) Applications to construct pipelines are reviewed by the Ontario Pipeline Coordination Committee (OPCC—see page 10) which examines environmental implications. The OPCC sets out steps a utility must take before its application will be heard by the Board. Route selection and environmental impact studies are among the normal requirements of pre-filed evidence.
- b) Evidence in support of an application is filed with the Board up to two or three months before the hearing.
- c) Board staff and intervening parties may seek additional information by way of written interrogatories.
- d) Utilities answer interrogatories concerning pre-filed evidence before the hearing commences.



*The Board conducts public hearings to get the widest possible input from groups and individuals affected by its decisions.*

## 6. "First Day" Proceedings

Before the hearing of evidence commences, the Board panel may review with interested parties procedural matters, technical issues, and the general approach to the hearing. This gives everyone an opportunity to become familiar with the application and to identify all the issues they wish to address in the hearing.

## 7. The Hearing

The Board ensures that sufficient evidence to make an informed decision is presented, tested and put on the record. The applicant usually testifies first through written evidence and witnesses. Intervenors and Special Counsel to Board staff then question these witnesses and may offer witnesses of their own. These witnesses may be cross-examined by the applicant.

When all the evidence has been given, each party has the opportunity to offer a summation in the form of written or oral argument, as directed by the Board.

The pre-filed evidence, transcripts of the hearing, and arguments are a matter of public record and are available at the Board office in Toronto.

## 8. Board Decision

The Board summarizes its findings in a "Report" or a document called "Reasons for Decision" or "Decision with Reasons," either of which discusses all the issues and arguments raised in the hearing and indicates the Board's findings. Depending on the complexity of the case, this publication will appear a few weeks or months after a hearing. Copies of these documents are available from the Ontario Government Bookstore, 880 Bay Street, Toronto, upon the payment of modest prescribed fees. Parties to the hearing receive copies from the Board when the Decision is issued.

## 9. Board Order or Recommendation

A Board Order is a legal document directing the implementation of a Board decision. It is binding on the parties named. Board Recommendations are included in Board Reports to the appropriate Minister or the Lieutenant Governor in Council who may or may not implement them.

## 10. Review and Appeal

A Decision or Order of the Board may be appealed by:

- a) applying to the Board requesting that it rescind or vary its Order;
- b) petitioning the Lieutenant Governor in Council requesting that a Board Order or Decision be confirmed, varied, rescinded or reheard;
- c) appealing an Order to the Divisional Court upon a question of law or jurisdiction;
- d) applying to the Divisional Court for judicial review or a Board decision.



*Intervenors at an Ontario Energy Board Hearing, Toronto.*

# BOARD ORGANIZATION

## Location

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The Ontario Energy Board offices, including hearing rooms and a reference library, are located in downtown Toronto at 14 Carlton Street.

## Library

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The Board's Reference Library is open to the public by appointment. It carries periodicals and other current information on regulation and the natural gas industry. Previous Board cases are available on microfilm at the Board offices, and anyone wishing to research previous decisions may have access by appointment.

## Public Inquiries

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General inquiries concerning procedural matters on applications before the Board are handled by the Board Secretary. Intervenor may also seek advice from members of the technical staff when preparing to participate in the hearing process.

Copies of Board Decisions and Reports may be purchased by the public from the Ontario Government Bookstore, 880 Bay Street, Toronto.

## Board Members and Staff

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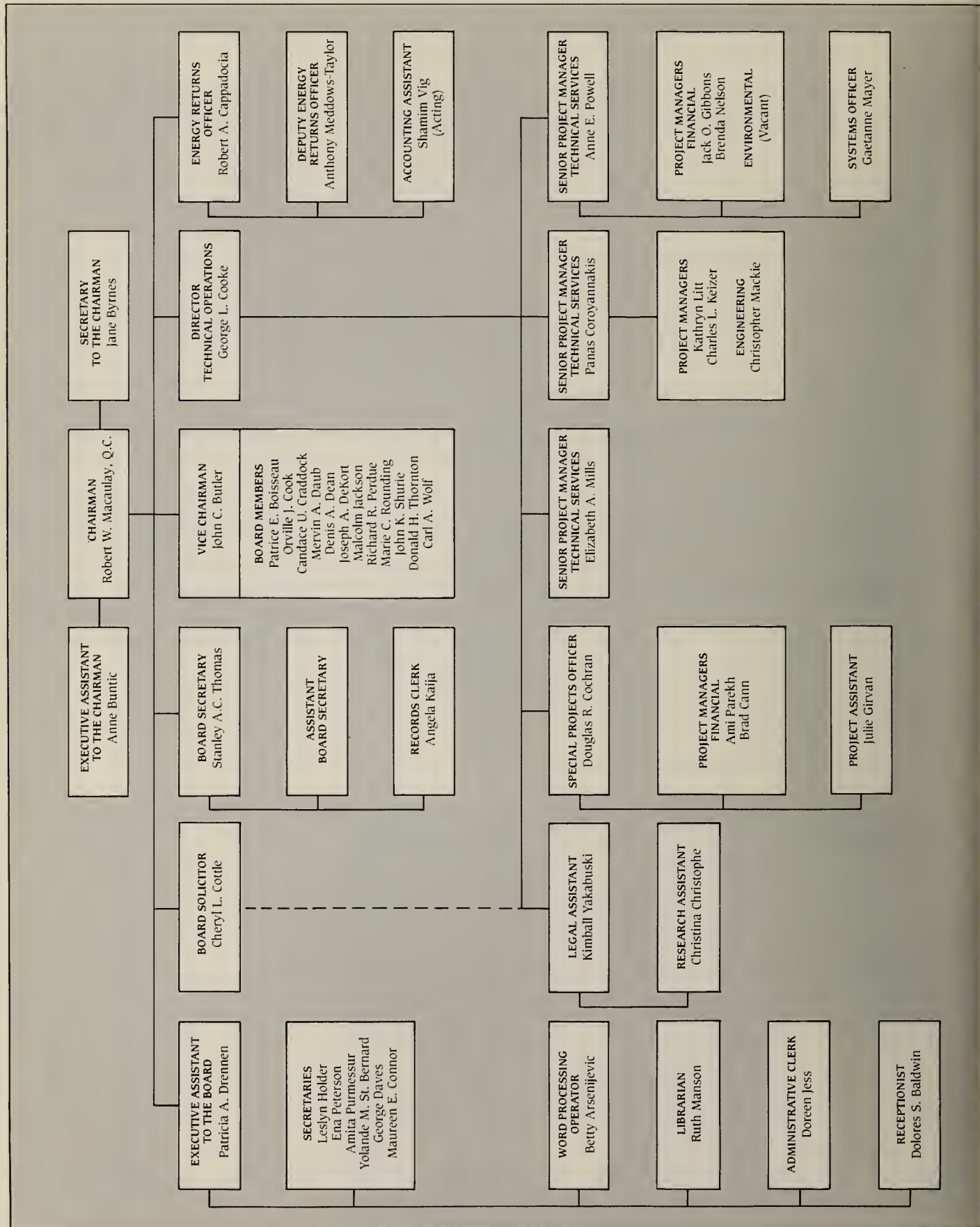
The Chairman and Board members are appointed by the Lieutenant Governor in Council. The present Chairman was appointed in 1984 for a five year term. Board members are appointed for one to three year terms. Members bring a range of experience to the Board with backgrounds in law, engineering, economics, accounting and finance, or direct energy industry experience.

There were 36 full time staff in fiscal 1986-87, including Technical and Administrative Support staff with special or technical knowledge of matters related to Board hearings. Legal counsel and outside consultants may be engaged to conduct proceedings, advise or testify.



## ORGANIZATION STRUCTURE

as at March 31, 1987





## GLOSSARY OF TERMS

- Argument:** The final step in a hearing, during which participants summarize their positions on various matters of concern based on the evidence adduced.
- Board Order:** A legal document directing the implementation of a Board decision. An order is binding on the indicated parties.
- Board Recommendation:** Usually contained in a Board Report to a Minister or to the Lieutenant Governor in Council on Ontario Hydro or some other energy-related matter. Such recommendations are not binding.
- Bulk Power Rates:** Wholesale electricity rates to municipalities and certain industrial customers of Ontario Hydro having an average annual power demand of 5,000 kilowatts or more.
- Buy/Sell Agreement:** Arrangement whereby an end-user purchases gas from a producer and then sells it to the local distribution utility who comingles that gas with other supplies. The end-user then buys gas from the local utility in the usual manner. The difference between the price paid to the producer and the price received from the local utility minus any transportation costs accrues to the end-user.
- CMP:** Competitive Marketing Program: a discount program offered by producers selling system gas to meet competitive situations by allowing the end-user/distribution utility to negotiate a reduced price that is then passed from the producers through TransCanada and the local utility to the end-user.
- Commodity Charge:** The variable component of pipeline transportation tolls or gas sales rates designed to recover variable costs of providing service.
- Contract Carriage:** Transportation service provided for the transport of gas not owned by the transporting pipeline company. See also T-SERVICE.
- Demand Charge:** The fixed component of pipeline transportation tolls or gas sales rates designed to recover fixed costs of providing service.
- Designated Gas Storage Area:** A land area containing geological formations into which the Board may authorize a person to inject, store and remove gas. Injection of gas for storage into any geological formation outside of a designated gas storage area is prohibited under Section 20 of the Ontario Energy Board Act.
- Direct Sales:** Natural gas supply purchase arrangements transacted between producers and end-users at negotiated prices for which pipeline transportation arrangements must then be negotiated separately with TransCanada and the local distribution utility.
- Gigajoule:** A measure of energy content in fuel, a typical residential consumer of natural gas might use about 130 gigajoule (GJ) per year for household heating. (One GJ = approximately .95 Mcf of natural gas.)
- Interrogatories:** Written requests for the supply of additional information or clarification of information already received.
- Intervention:** Notice of intent to participate in hearings, stating the interest in the proceeding. The person or group is called an intervenor.

- Rate Base:** The amount that a utility has invested in assets that are used and useful in providing service minus accumulated depreciation plus an allowance for working capital and any other items which the Board may determine. Rate base may also be net of accumulated deferred income taxes.
- Rate of Return on Common Equity:** Utility income, after tax, expressed as a percentage of the amount of common equity approved for inclusion in the utility's capital structure.
- Rate of Return on Rate Base:** The amount which a utility is allowed to earn expressed as a percentage of the rate base. Note that this return is not guaranteed to the utility. Rather, this is the return that the company has a reasonable opportunity to earn given forecast conditions.
- Revenue Requirement:** The allowed expenses of the utility and the allowed return on rate base are added together to obtain the total amount which the utility must recover through rates in order to cover its costs of providing service.
- Test Year:** A period of twelve consecutive months (usually the company's next full fiscal year) for which projections of costs, revenues, expenses and rate base are studied by the Board in order to set rates which will allow the utility the opportunity to earn a reasonable rate of return.
- T-Service:** The gas transportation service offered by a pipeline company or distributor to transport gas owned by others. See also CONTRACT CARRIAGE.





